INFRASTRUCTURE STATE REVOLVING FUND PROGRAM
STAFF REPORT

Summary terms

Applicant:	City of Pacifica (City)
Project name:	Phase 1: Lower Linda Mar Rehab and Replacement and UV Disinfection System Replacement (Project)
Applicant eligibility category:	Sponsor (Local Government)
Project eligibility category:	Public Development Facility (10. Sewage Collection and Treatment)
Project location:	Various Sites in the City of Pacifica and 700 Pacific Coast Highway, Pacifica, CA 94044 (UV Disinfection System)
Financing amount:	$21,000,000 (Financing includes financing of origination fee)
Financing term:	30 Years
Interest rate:	All-in interest rate of 4.36% (inclusive of 0.30% servicing fee)
Fees:	1% origination fee ($210,000) included in the loan amount
Source of repayment:	Enterprise Fund – Sewer Utility Fund (Fund)
Security:	Pledge of net system revenues and all legally available amounts in the Sewer Utility Enterprise Fund
Applicant credit rating:	Standard & Poor's AA dated May 20, 2019 (2014 Wastewater Revenue Bond)
Applicant existing ISRF financing exposure:	$0

Executive Summary

Borrower Description:

The City of Pacifica is a located on the Pacific Coast in San Mateo County, approximately 15 miles south of San Francisco. The City encompasses roughly 12.6 square miles and serves a population of approximately 38,655. In September 2022, the City unemployment rate was just 1.9%, compared to the State rate of 3.7%. Its 2020 Median Household income (MHI) of $130,466 is 166% of State MHI, and almost twice the national figure, indicating strong capacity for ratepayers to absorb upcoming rate increases and ensure stable future revenues for the Sewer Utility Enterprise Fund. Pacifica has a AA rating from Standard and Poor's on its 2014 Wastewater Revenue Bond, and a AA+ rating on its 2019 Taxable Pension Obligation Refunding Bond.

The City's wastewater collection system was built in the 1940s and 1950s and has 12,289 system users (Users) per most recent count and serves the entire population within the City limits. The system is comprised of approximately 97 miles of gravity sewer mains, 4 miles of pressure mains, 5 pump stations, water treatment plant and 12,000 private sewer laterals (2021 Collection System Master Plan Update). All wastewater is then pumped to the Calera Creek Water Recycling Plant for processing.

Project Description and Benefits:

The City has several CIP projects that are grouped together under the umbrella of one large project, broken up into two phases. Phase 1, the subject Project to be financed by ISRF Program funds for $21M, involves the rehabilitation and replacement of the Lower Linda Mar collection systems and replacement of the Ultraviolet (UV) Disinfection System (Project).

Phase 2, for $20M, consists of the rehabilitation and replacement of the Fremont/Catalina Ave and Vallemar collection systems, and relocation of the sewer mainline at the San Francisco RV Resort Park. The City is considering a federal Water Infrastructure Finance and Innovation Act (WIFIA) loan to finance Phase 2. The application process with WIFIA takes approximately 18-24 months including an initial review stage that would result in a "Letter of Intent" from WIFIA. The City is currently awaiting the Letter of Intent from WIFIA.

The scope of work contemplated under Phase 1 has become increasingly urgent, since the City has delayed some critical sewer and wastewater projects. The ability to proceed with Phase 1 is not contingent upon confirming the financing for Phase 2, as the two phases can be completed independent of each other. Phase 1 construction is scheduled to begin Q4 in FY 2023 and will be completed end of 2025. Phase 2 would begin shortly after WIFIA financing is obtained, i.e., approximately Q3 of FY 2024. IBank has included the WIFIA loan has in its projected debt service analysis.

The useful life for both the Linda Mar Rehab and Replacement and the UV Disinfection system exceeds the requested loan term of 30 years.

The following is a Sources and Uses Table for the Project:

Project Uses	Project Sources		
	IBank	WIFIA	Total
Lower Linda Mar Rehab and Replacement pt 1	$3,334,000		$3,334,000
Lower Linda Mar Rehab and Replacement pt 2	$3,333,000		$3,333,000
Lower Linda Mar Rehab and Replacement pt 3	$3,333,000		$3,333,000
UV Disinfection System Replacement	$10,500,000		$10,500,000
Fremont/Catalina Ave Rehab and Replacement		$1,400,000	$1,400,000
Vallemar Rehab and Replacement pt 1		$3,709,000	$3,709,000
Vallemar Rehab and Replacement pt 2		$3,709,000	$3,709,000
Vallemar Rehab and Replacement pt 3		$3,709,000	$3,709,000
Vallemar Rehab and Replacement pt 4		$3,709,000	$3,709,000
Relocation of Sewer Mainline at SF RV Park		$3,800,000	$3,800,000
Additional Contingency for Phase 1 projects	$290,000		$290,000
Origination Fee	$210,000		$210,000
Total	**$21,000,000**	**$20,036,000**	**$41,036,000**

The City intends to finance 100% of Phase 1 with the requested ISRF funds, including the origination fee. The City has included a 25% construction contingency for Phase 1 which is already accounted for in the figures on the above table. Phase 2 is expected to be 100% financed by WIFIA Program funds.

The Project is expected to decrease operating costs and water usage by 89% and energy usage of the UV system by 60%. The current pipes in service are susceptible to tree root intrusion, and the new pipes will be impervious to intrusion, which will result in a longer useful life and overall decrease in maintenance costs.

Financial Analysis Summary

The Fund has generally maintained good financial position and performance in recent years, with healthy cash reserves and liquidity, and low leverage. At FY 2021, the Net Position was strong at over $27M and cash reserves were over $3.5M. The Fund posted only one small operating deficit over the last five years, in FY 2020, due to an accounting adjustment to depreciation expense, which had no cash impact. Operations rebounded in FY 2021 with a strong surplus, and unaudited FY 2022 figures appear to show continued positive performance.

Repayment Analysis

Historical cash flow analysis is summarized below. Assumptions are detailed in the body of the staff report.

CASH FLOW						
	For Fiscal Year Ending (FYE) June 30	2017	2018	2019	2020	2021
	Operating Income (Loss)	$1,687,215	$2,326,388	$1,346,126	($526,858)	$4,460,821
	Transaction Specific Adjustments					
+	Depreciation	2,583,898	2,775,873	3,223,333	6,899,389	922,810
	Investment earnings	145,621	442,917	415,825	387,604	296,784
+	Transfer In	1,506,000	26,272	0	0	2,187,528
-	Transfer Out	(2,324,500)	(124,615)	(272,500)	(154,867)	(1,937,528)
	Total of all Adjustments	1,911,019	3,120,447	3,366,658	7,132,126	1,469,594
	Cash Available for Debt Service	**$3,598,234**	**$5,446,835**	**$4,712,784**	**$6,605,268**	**$5,930,415**
	Debt Service Calculation					
	Total Existing MADS Debt Service	4,069,153	4,069,153	4,069,153	4,069,153	4,069,153
	Proposed IBank MADS (1)	1,278,770	1,278,770	1,278,770	1,278,770	1,278,770
	Total Obligations MADS	**$5,347,922**	**$5,347,922**	**$5,347,922**	**$5,347,922**	**$5,347,922**
	Debt Service Coverage Ratio (2)	**0.67**	**1.02**	**0.88**	**1.24**	**1.11**

(1) Calculated as $21,000,000 at an all-in rate of 4.36% (including a 0.30% annual servicing fee) for a term of 30 Years

(2) Existing Parity Debt Minimum Required DSCR 1.25

Based on conservative adjustments made by IBank Staff, the Fund would have had adequate cash flow (with minimum DSCR over 1.00x) to cover Maximum Annual Debt Service in three of the last five fiscal years. (It is worth noting, however, that in terms of actual performance the Fund remained in compliance with all existing debt financing covenants throughout the period.) As discussed below, revenue and expense projections through FY 2027 reflect moderate rate increases which have already been approved and show adequate coverage in all years, with an average DSCR of 1.57x. Taking all factors into account, Staff believes the Fund has adequate resources to make the required debt service for the proposed ISRF loan along with existing debt obligations.

Risks and Mitigants

Risk: The City is not prohibited from incurring additional obligations payable from the Fund.

Mitigants:

- As a condition of the ISRF financing the City will be prohibited from issuing future debt senior to the IBank financing.
- New parity debt would only be permitted if Net Revenues amount to at least 1.25 times the Maximum Annual Debt Service (MADS), taking into consideration the MADS payable in any Fiscal Year on all existing debt and the proposed parity debt.

• The Borrower will be required to maintain rates sufficient to ensure a minimum 1.25x times aggregate annual DSCR for obligations on parity with the Financing. Risk: The Fund has adequate historical cash flow in Fiscal Year (FY) 2018, 2020 and 2021 with minimum DSCR over 1.00X, however does not meet the parity debt DSCR requirement of 1.25X Mitigants: • Projected rate increase revenues result in more than adequate Funds to service new debts and sufficient to maintain the minimum required DSCR of 1.25X. • In FY 2019, the City's 2014 Wastewater Revenue Bond was upgraded from AA- to AA with a Stable outlook and in FY 2019 the 2019 Taxable Pension Obligation Refunding Bond was issued with a rating of AA+ by Standard and Poor's. This is a strong rating and an indication of a stable outlook and sound financial indicators. • The Fund's Leverage Ratio has generally remained healthy at around 2.0X. • Charges for Services increased 23.6% from FY 2017 to FY 2021 and have been consistently increasing year over year except in FY 2021 where it remained flat. • The City has successfully increased rates to cover expenses and service its debt.
Compliance with IBank Criteria, Priorities, and Guidelines The application and the proposed financing are in accordance with IBank Criteria, Priorities and Guidelines (ISRF Criteria). The City intends to use its internally required contractor pre-qualification questionnaire, which IBank Staff has determined substantially meets the intent of the Model Questionnaire. **ISRF Criteria Waivers** 1. The City seeks an IBank Board waiver of the Criteria requirement to complete construction within two years. The City expects the construction to be completed in 24 months but has requested 36 months for built in cushion.
Staff Recommendation: Staff recommends the approval of Resolution No. 23-02 authorizing ISRF Program Financing in an amount not to exceed $21,000,000 to the City of Pacifica for the Lower Linda Mar Rehabilitation and Replacement and UV Disinfection System Replacement Projects (Project).

IBank Staff:	Lydia Workman and Lina Moeller
Date of Staff Report:	January 18, 2023
Date of IBank Board Meeting:	January 25, 2023
Resolution Number:	23-02

Borrower background

Borrower description

The City of Pacifica is a General Law City incorporated in 1957 and operates under the Council Manager form of government. Legislative authority is vested in a five-member City Council elected by district for four-year overlapping terms. The Mayor is selected each year by a majority vote of the other Council members. The City Council is responsible for, among other things, passing ordinances, adopting the budget, appointing advisory commissions/committees, and hiring both the City Manager and City

Attorney, who are retained on a contract basis. The City Manager, in turn, appoints the heads of the various departments (City of Pacifica ACFR 2021).

The City, encompassing roughly 12.6 square miles, is located on the Pacific Coast in San Mateo County, approximately 15 miles south of San Francisco. While the City is considered a “bedroom community” it has a combination of residential, office, and commercial retail businesses, and natural open space, and it prides itself on fostering a "small town" feel. The City's geographic setting, its proximity to San Francisco and the San Francisco International Airport, along with its natural open space and coastal beauty, make it a desirable place to live and work. With a population of approximately 38,655 (US Census Bureau, April 2020), the City is projected to grow to 40,500 by 2040 and add 1,900 additional housing units by 2031 to meet their Region Housing Needs Allocation.

This will be the City’s first loan with ISRF Program funds and with IBank.

Local economy

With its proximity to San Francisco and the rest of the Bay Area, Pacifica residents enjoy access to all the amenities and occupational opportunities the region has to offer. Most residents commute to other Bay Area communities for work.

The City’s has a low current unemployment rate of 1.9% (CA Department of Finance, September 2022) when compared to the State and national rate of 3.7% and 3.5% respectively. The Median Household income (MHI) of $130,466 is 166% of the State figure of $78,672 and almost 2 times the national MHI of $67,521 (US Census Bureau, 2020).

This is illustrated in the Top 10 Employers chart below:

TOP TEN DISTRICT EMPLOYERS OF City of Pacifica as of June 30, 2021			
Rank	**Employer**	**Number of Employees**	**Percentage of Total Labor Force**
1	Pacifica School District	383	1.5%
2	City of Pacifica	244	0.9%
3	Safeway	262	1.0%
4	Jefferson High School	514	2.0%
5	Ocean Market	55	0.2%
6	Ace Hardware	14	0.1%
7	Recology of the Coast	37	0.1%
8	Rite Aide	34	0.1%
9	Ross Dress for Less	31	0.1%
10	North coast County Water District	18	0.1%
	Total	**1592**	**6.1%**
	City of Pacifica Labor Force*	**26,208**	
	City of Pacifica Unemployment Rate	**1.90%**	

Source: Financing Application Addendum

*Per CensusQuickFacts.gov April 2020

Note that none of the top ten employers display concentration risk for the Borrower. They are each well below 10% of the city's total labor force.

In May 2019, Standard and Poor's upgraded the City's 2014 Wastewater Revenue Bond from AA- to AA with a Stable outlook, and issued a AA+ rating for the Pacifica's 2019 Taxable Pension Obligation Refunding Bond. According to Standard & Poor's upgrade memo: "Wastewater service rates are moderately high and are scheduled to rise substantially, but remain affordable in the context of the service area's very strong income levels and the county's low poverty rate."

Pacifica's strong economic profile appears to point to ample capacity for Sewer Utility Fund Users to absorb future rate increases and ensure stable future revenues for the Fund.

Project background

Project description

The overall project is comprised of several components of the Fund's Capital Improvement Plan (CIP), broken up into Phase 1 and Phase 2. The proceeds of the requested $21M ISRF financing will be applied to Phase 1, known as the Lower Linda Mar Rehab and Repair and UV Disinfection System Replacement (Project), involves the repair and replacement of these public assets. The City's ISRF financing request for this project is eligible under the Public Development Facilities, Program Category #10 Sewage Collection and Treatment.

The Lower Linda Mar component of the Project includes: the installation of approximately 19,580 linear feet (LF) of sewer mainlines in the Lower Linda Mar neighborhood; the replacement of an approximately 6-inch vitrified clay pipe (VCP) sanitary sewer mainline with new 8-inch High-density polyethylene (HDPE) pipe by pipe bursting; 307 of 20-in VCP sanitary sewer mainline with new 27-inch PVC by open trench; lateral reconnection; and Inflow and Infiltration (I&I) resealing of 66 manholes and replacement of 5 manholes. With respect to the UV Disinfection System component, this system was constructed and brought online in 2000 but now needs to be replaced. The City will use a temporary disinfection system while new UV Disinfection facility is under construction.

Phase 2, for $20M, consists of the rehabilitation and replacement of the Fremont/Catalina Ave and Vallemar collection systems and relocation of the sewer mainline at the San Francisco RV Resort Park in Pacifica. The City is seeking a WIFIA loan to finance Phase 2 and is currently awaiting the Letter of Intent from WIFIA. Phase 2 is expected to begin in Q3 of FY 2024**.** As noted, the two phases may be carried out independently, and the City does not need to obtain a financing commitment for Phase 2 before breaking ground on Phase 1.

Project's public benefits

As mentioned before the sewer infrastructure was built in the 1940s and 1950s, and components are nearing or are already at the end of their useful life. The Project will offer many benefits to the City, fiscally by lowering maintenance costs, lowering energy usage, and decreasing water usage. The Project is expected to result in 89% reductions in energy use and other vital resources. Total annual operating costs savings are estimated to be $106K. The Lower Linda Mar Rehab and Replacement will lower operating costs from $18,830 to $2,071 per year and the UV Disinfection System replacement savings are estimated at $90,000 per year and lower costs from $150,000 to $60,000 per year. These benefits are not inclusive of decreased likelihood of emergency repairs, which tend to cost 3 times more than planned repairs and replacement activities.

The City's potable water annual savings are estimated to be 212,000 gallons. It is currently flushing the pipeline 3 times a year; with this Project it will be once every three years. Annual energy usage savings are estimated to be 690,000 kwh (from 1,150,000 to 460,000 kwh). The City states that there will be 239 jobs created during the construction period at an average wage of $38 per hour, and 24 permanent jobs at $38 per hour will be retained.

System Description

System Infrastructure

The City of Pacifica provides sewer services to 12,289 residents and business Users within the City of Pacifica (Exhibit 5). Services include wastewater treatment at the City plant, which properly disposes of influent flows and provides water re-use benefits. The City also maintains the wastewater collection system including conveyance pipelines, manholes, service laterals, and pump stations. It is responsible for maintaining compliance with its wastewater National Pollutant Discharge Elimination System (NPDES) Permit requirements, and operation, rehabilitation, and replacement of all wastewater infrastructure in the community. Wastewater services are supported by wastewater service charges, which are updated periodically to generate adequate revenues to maintain a modern, resilient wastewater enterprise for current and future customers.

Capital Improvement Plan

The City has planned approximately $60.5M in capital expenditures between FY 2022 and FY 2027, or $12.1M per year on average. The most significant CIP project costs include Phase I and 2, as described above. Beyond these phases the City has no additional borrowing plans for the system over the next 5 years.

System User and Rate Structure

The following table displays the Number of Users by Category and reflects stability in the User base. The City of Pacifica is largely built out, and no material changes are expected in service demand over the next 5 years. The table further reflects a high proportion of residential Users, which is consistent with the nature of the City, and provides a stable anchor to its User base.

NUMBER OF USERS BY CATEGORY					
For Fiscal Year Ending (FYE) June 30	2019	2020	2021	2022	2023
Residential	11,729	11,734	11,740	11,746	11,753
Commercial	532	533	534	535	536
Total	**12,261**	**12,267**	**12,274**	**12,281**	**12,289**
% change	N/A	0.0%	0.1%	0.1%	0.1%
Source: Financing Application Addendum					

The table below displays Current System Usage and Revenue as of June 30, 2022. Residential customers represent approximately 89% of the Total Gross Annual Revenues.

CURRENT SYSTEM USAGE & REVENUE				
	Annual Usage (MGY)(1)	% Annual Usage	Gross Annual Revenue	% Gross Annual Revenue
Residential	690	88.5%	$15,517,508	89.0%
Commercial	90	11.5%	$1,919,853	11.0%
Total	**780**	**100.0%**	**$17,437,361**	**100.0%**

Source: Financing Application

(1) Million Gallons per Year

The following table displays the Top 10 System Users and reflects that the City complies with IBank's ISRF Criteria requirement that revenues derived from the top ten ratepayers not exceed 50% of total revenues, and that no single ratepayer generates 15% or greater of the System's annual revenues.

TOP 10 SYSTEM USERS as of June 30, 2022				
	User	% System Use	% System Revenues	Customer Class (Residential/ Commercial/ Industrial/Other)
1	Bay Apartment Communities Inc*	0.80%	0.70%	Residential
2	Seacliff Apartments Pacifica P	0.70%	0.62%	Residential
3	Bay Apartment Communities Inc*	0.67%	0.59%	Residential
4	Pacifica Villages LP	0.60%	0.53%	Residential
5	San Francisco Lodging LLC	0.49%	0.48%	Commercial
6	Oceana Senior Housing Corp	0.43%	0.38%	Residential
7	GRI Fairmont LLC	0.24%	0.38%	Commercial
8	CRP/PSE Seaside Pacifica Owner	0.41%	0.36%	Residential
9	Tam So Wan Yip	0.18%	0.28%	Commercial
10	Upsky Lighthouse Hotel LLC	0.29%	0.28%	Commercial
	Total	**4.81%**	**4.60%**	

Source: Financing Application Addendum

*Separate accounts for separate complexes

The following table displays the Historical Average minimum Annual User Charge Per Residential Unit from FY 2017 through FY 2021.

HISTORICAL AND CURRENT AVERAGE ANNUAL USER CHARGE PER RESIDENTIAL UNIT					
For Fiscal Year Ending (FYE) June 30	2017	2018	2019	2020	2021
Residential	$666.85	$720.20	$777.81	$832.26	$890.52
% change	N/A	8.0%	8.0%	7.0%	7.0%
% of MHI (2021 at $130,466)	0.5%	0.6%	0.6%	0.6%	0.7%

Source: Financing Application Addendum

The following table displays the Projected Average minimum Annual User Charge Per Residential Unit from FY 2022 through FY 2026.

PROJECTED AVERAGE MINIMUM ANNUAL USER CHARGE PER RESIDENTIAL UNIT					
For Fiscal Year Ending (FYE) June 30	2022	2023	2024	2025	2026
Residential	$903.06	$934.67	$967.38	$1,001.24	$1,036.28
% change	1.4%	3.5%	3.5%	3.5%	3.5%

Source: Financing Application Addendum

The following table displays the City's Average Monthly System User Charge compared to nearby systems as of June 30, 2022. This is consistent with account growth assumptions used in the water rate study and wastewater rate study. According to the study, Pacifica has an average monthly residential rate of $75.26 which is 18% lower than the average of rates in the nearby systems, and below the highest rate of $91.79 charged currently by the City of San Carlos. The fees for services are collected via the county on the property tax bill, via a Teeter Plan. As a part of this plan the county collects any fees for delinquent accounts and keeps those fees.

The City has completed the Prop 218 process for rate increases and the increase has been approved by the City Council and voters. On May 9, 2022, the City Council approved the changes to Ordinance 879 C.S. with Resolution No. 22-2022. The updated Ordinance was signed on May 23, 2022.

CURRENT AVERAGE MONTHLY SYSTEM USER CHARGE COMPARED TO NEARBY SYSTEMS			
System Name	Distance in Miles	Location	Average Monthly Residential Rate
Redwood City	23.1	Redwood City	$71.42
Belmont	17.6	Belmont	$75.23
City of Pacifica	**N/A**		**$75.26**
San Bruno	7.0	Burlingame	$75.30
West Bay SD	26.9	Menlo Park	$83.66
San Mateo	18.9	San Mateo	$84.91
Foster City	18.0	Foster City	$89.97
San Carlos	20.3	San Carlos	$91.79
Source: Financing Application Addendum	**Average Monthly Charge**		**$80.94**

Below are the historical rate increases for the previous 5 years:

HISTORICAL RATE INCREASES OF THE PAST FIVE YEARS		
Date Adopted	Date Effective	Percent Increase
May 8, 2017	July 1, 2017	8.00%
May 8, 2017	July 1, 2018	8.00%
May 8, 2017	July 1, 2019	8.00%
May 8, 2017	July 1, 2020	7.00%
May 8, 2017	July 1, 2021	7.00%

A rate study was completed and the City has approved rate increases of 3.5% each year for the next 5 years, as displayed below. The current rates have been in effect since July 2022, and the increases have gone through the Prop. 218 approval process.

CURRENT AND PROJECTED RATE INCREASES		
Date Adopted	Date Effective	Percent Increase
May 9,2022	July 1, 2022	3.5%
May 9,2022	July 1, 2023	3.5%
May 9,2022	July 1, 2024	3.5%
May 9,2022	July 1, 2025	3.5%
May 9,2022	July 1, 2026	3.5%

The rate Increases were planned taking into consideration the subject Phase 1 and Phase 2 projects and associated financing costs. The increases are reflected in the projections discussed below.

Source of repayment

The City of Pacifica will repay the ISRF Financing with net revenues from the operations of the Sewer Enterprise Fund. The Financing will be secured by a pledge of net revenues and all legally available amounts in the Fund.

Credit analysis

Borrower financial statements, are the Annual Comprehensive Financial Reports, and are presented for fiscal years 2017 through 2021 (Exhibits 1 and 2). Key Economic Indicators Table was also reviewed for fiscal years 2017 through 2021 (Exhibit 4). The Sewer Enterprise Fund is the City of Pacifica's main business-type activity fund, meaning that all or a significant portion of the Fund's costs are meant to be covered through user fees and charges. The Fund's financial statements are presented on an accrual basis of accounting.

The Fund has had acceptable cash reserves and liquidity as reflected in its Current Ratio and a healthy Leverage Ratio (more details in the sections below). Net Position was strong at over $27M at FYE 2021.

Comparative Balance Sheet Analysis (Exhibit 1):

The Fund has maintained Cash and Investment accounts over $3M in the most recent two fiscal years analyzed, and an average of over $5M over the five-year period. The Current Ratio (current assets divided by current liabilities) reflects the Fund's strong liquidity in historical years at over 1.23x or higher with the exception of FY 2019. The Current Ratio fell well below 1.00x in FY 2019 due to the use of Cash reserves for certain capital improvement projects but has since recuperated.

Capital Assets grew 59% from FY 2017 to 2021 as Capital projects were completed using debt proceeds mentioned above.

The Leverage Ratio (total liabilities divided by net position) has generally remained at a healthy level at right around 2.0x and improved in FY 2021 to 1.7x as Net Position increased mainly due to a large surplus in FY21, which was partly the result of the accounting treatment for depreciation expense, as discussed below.

Over the five-year period Fund Net Position grew cumulatively by 5%, even after taking into account a $2M or 7.6% decline resulting from a correction in the accounting for depreciation expense, to reflect capital improvements that had been completed in recent years.

Unaudited FY 2022 financial statements were provided by the City, which appear to show a favorable picture, with an increase in the Current Ratio to 1.85x, and a decrease in the Leverage Ratio to 1.45x.

Sewer Utility Fund Debt

The Fund's existing debt obligations are summarized below:

WASTEWATER (SEWER) ENTERPRISE FUND OBLIGATIONS FOR THE CITY OF PACIFICA AS OF JULY 30, 2021					
Debt Issued	**Date Issued**	**Parity/ Subordinate Debt Allowed**	**Maturity**	**Amount Issued**	**Outstanding Balance**
2014 Wastewater Revenue Refunding Bond	11/20/2014	Parity	10/1/2026	$6,740,000	$6,740,000
2017 Wastewater Revenue Bonds	6/21/2017	Parity	10/1/2043	$22,100,000	$22,100,000
2019 Taxable Pension Obligation Refunding Bond (1)	10/23/2019	N/A	6/1/2030	$9,685,000	$1,095,682
City of Pacifica Financing Authority	8/27/2012	Parity	7/1/2032	$60,402,594	$3,343,408
			Total	**$98,927,594**	**$33,279,090**

(1) The Fund is responsible for 11% of this General Fund Debt. Prorata share of 11% shown above.

The total combined annual payments for the four loans above are $4,069,153. Combined with the requested ISRF financing, total Max Annual Debt Service Payment would be $5,347,922. The 2014 Wastewater Revenue Refunding Bond is scheduled to be paid off in FY 2026.

As noted, the City is seeking a WIFIA loan for Phase 2 of the project, which would add about $1.1M to debt service, but not until after the maturity of the 2014 bond (which would get paid off in FY 2026), as the WIFIA payment would be deferred for five years. There are currently no further borrowing plans for the Fund, and the City will seek to rely primarily on rate increases and cash reserves to fund future capital purchases.

Comparative Income Statement Analysis (Exhibit 2):

Operating Income (operating revenues less operating expenses before non-operating items and transfers) was positive in four of the five years reviewed. Operating Revenues reflect 8% rate increases implemented for FY 2017 through 2019, and 7% rate increases for FY 2020 and FY 2021. In FY 2020 the Fund's expenses grew from $13.5M to $17.1M, a 27% increase, due to the depreciation adjustment described above, which led to an operating loss of $526,858 in FY 2020. However, the Fund rebounded in FY 2021 with a large surplus, owing in part to much lower depreciation expense. It is worth noting that from FY 2019 through FY 2021, total operating expenses excluding depreciation averaged about $10.2M, with little variation.

The Fund's average Operating Margin (Operating Income as a % of Operating Revenues) averaged 12.9% over the five years reviewed. The cumulative operating surplus over the five-year period was $9.3M, and the Fund's Net Position has remained strong.

Unaudited financial statements for the Fund were provided. The ACFR for FY 2022 are not completed and are expected to be in the next few weeks. Unaudited FY 2022 figures show strong performance, with revenues increasing from $15.8M in FY 2021 to nearly $19M, leading to Operating Income of $4.3M and an increase in net position of $2.5M. The Fund financials show 17% growth in Total Operating Revenues and operating expense at $4.3M, slightly lower than the FY 2021 of $4.46M due to a large depreciation figure of $4.1M resulting from related capital improvements and accounting adjustments. Depreciation tables for the years reviewed have been requested and will be reviewed to gain understanding of this line item. It is a non-cash item, however, therefore would be added back in cash flow analysis. Non-Operating Revenues and Expenses in FY 2022 remained consistent with historical levels.

On the Statement of Net Position, Total Current Assets grew 44.6% due to increase in Cash and Investments which is a factor of the revenue growth and investment market. Unrestricted assets were strong at $4.7M ad would be available for any cost overruns for the subject Project. This is an increase of 117% over the prior year and factored into the strong total Net Position of $30M in FY 2022. In summary FY 2022 appears to be a year where the Fund shows a strong resurgence.

Repayment analysis

Historical Performance

Historical Cashflow analysis is summarized as follows:

CASH FLOW					
For Fiscal Year Ending (FYE) June 30	**2017**	**2018**	**2019**	**2020**	**2021**
Operating Income (Loss)	$1,687,215	$2,326,388	$1,346,126	($526,858)	$4,460,821
Transaction Specific Adjustments					
+ Depreciation	2,583,898	2,775,873	3,223,333	6,899,389	922,810
Investment earnings	145,621	442,917	415,825	387,604	296,784
+ Transfer In	1,506,000	26,272	0	0	2,187,528
- Transfer Out	(2,324,500)	(124,615)	(272,500)	(154,867)	(1,937,528)
Total of all Adjustments	1,911,019	3,120,447	3,366,658	7,132,126	1,469,594
Cash Available for Debt Service	**$3,598,234**	**$5,446,835**	**$4,712,784**	**$6,605,268**	**$5,930,415**
Debt Service Calculation					
Total Existing MADS Debt Service	4,069,153	4,069,153	4,069,153	4,069,153	4,069,153
Proposed IBank MADS (1)	1,278,770	1,278,770	1,278,770	1,278,770	1,278,770
Total Obligations MADS	**$5,347,922**	**$5,347,922**	**$5,347,922**	**$5,347,922**	**$5,347,922**
Debt Service Coverage Ratio (2)	**0.67**	**1.02**	**0.88**	**1.24**	**1.11**
(1) Calculated as $21,000,000 at an all-in rate of 4.36% (including a 0.30% annual servicing fee) for a term of 30 Years					
(2) Existing Parity Debt Minimum Required DSCR 1.25					

Adjustments in the cash flow chart above include:

- Depreciation (a non-cash expense) has been added back.
- Investment Earnings which, though non-operating revenues, are ongoing and consistent year over year, have been added to cashflow.

- Transfer In: In 2021, the Transfer In of $2,187,528 was from another fund that owed the Fund for a local drainage CIP project.
- Transfers out are related to paying back the General Fund and CIP fund, Parking Fund, Disaster Account Funds.
- Note: Non-operating expenses of interest and fiscal charges are not adjusted in chart above as interest expense is included in existing MADS. (Fiscal charges could be deducted as these are actual expenses incurred however these were not broken out.)

The above DSCRs are conservative as the 2017 Wastewater Revenue Bond was issued in June 2017 and payments started in FY 2018. Also, the 2019 Taxable Pension Obligation Refunding Bond was issued in October 2019 and payments were due in FY 2020 onwards.

Considering the adjustments above, the Fund would have had adequate cash flow (with minimum DSCR over 1.00x) to cover MADS (including the requested ISRF Financing), in FY 2018, 2020 and 2021. (However, in terms of actual coverage on existing MADS, historical cash flow has been in compliance with all existing debt financing covenants.)

Cash flow projections

Based on the Projections provided by the City, staff completed the following Projected Cash Flow analysis:

PROJECTED CASH FLOW					
For Fiscal Year Ending (FYE) June 30	2023	2024	2025	2026	2027
Operating Income (Loss)	$5,349,468	$5,536,699	$5,730,483	$5,931,050	$6,138,637
Transaction Specific Adjustments					
+ Depreciation	988,537	1,023,136	1,058,945	1,096,008	1,134,369
+ Investment earnings	328,673	340,177	352,083	364,406	377,160
+ Transfers In	2,422,578	2,507,368	2,595,126	2,685,955	2,685,955
+ Transfers Out	(2,145,715)	(2,220,815)	(2,298,544)	(2,378,993)	(2,378,993)
Total of all Adjustments	1,594,073	1,649,866	1,707,610	1,767,376	1,818,491
Cash Available for Debt Service	**$6,943,540**	**$7,186,565**	**$7,438,094**	**$7,698,427**	**$7,957,128**
Debt Service Calculation					
Total Existing MADS Debt Service	4,069,153	4,069,153	4,069,153	2,312,590	2,312,590
Proposed IBank MADS (1)	1,278,770	1,278,770	1,278,770	1,278,770	1,278,770
Proposed WIFIA Sub. loan $20M, 30 yr. @ 4% (est.)(3)	0	0	0	0	1,149,470
Total Obligations MADS	**$5,347,922**	**$5,347,922**	**$5,347,922**	**$3,591,360**	**$4,740,830**
Debt Service Coverage Ratio (2)	**1.30**	**1.34**	**1.39**	**2.14**	**1.68**

(1) Calculated as $21,000,000 at an all-in rate of 4.36% (including a 0.30% annual servicing fee) for a term of 30 years
(2) Existing Parity Debt Minimum Required DSCR 1.25
(3) WIFIA loan does not require payment until 2027 (yr. 5)

The projections, which are presented in greater detail in Exhibit 3, reflect the following assumptions by the City:

- Operation Revenues: Based on 3.5% rate increases each year through FY 2026.
- Expenses: Similar staffing and expense levels over five-year rate period. Over the years projected FY 2023 to FY 2027 the Expenses are expected to grow by approximately 15%.
- Non-operating Revenues: Similar levels over five-year period.
- Net positive transfers into the fund over five-year period. The transfers in and out are tied to Revenue Bond requisitions to reimburse the Fund for construction.
- Transfers in are related to operating transfers in from the General Fund, Transfers in for CIP projects etc. These are expected to be ongoing and consistent. Please see Exhibit #3 for projections given by the City and assumptions.

- Transfers out are related to paying back the General Fund, CIP fund, Parking Fund, and Disaster Account Funds. These are also expected to be ongoing and consistent. In FY 2021, there was a total Transfers out of $2,237,528. Included in this is a $1,049,938 transfer out from the Fund to the General Fund for repayment plan approved in FY 2014 for CIP Projects. This repayment will end in FY 2023-2024.

The total estimated savings of $106K per year in operating costs and energy savings with this Project mentioned earlier are not included by the City in the projections. They chose to be conservative in their projections.

The projected cashflow through FY 2027 adequately supports maximum annual debt service for the proposed ISRF loan and all existing debt in all projected years. Transfers in and Transfers out were subtracted from the cash available for debt service. The DSCR in all projected years was over 1.25X. Staff included the WIFIA payment starting in FY 2027. WIFIA allows for up to 5 years of deferred payments, and the City intends to take full deferment. In FY 2026, MADS declines since the 2014 Wastewater Revenue Refunding Bond will have been paid in full. In FY 2027 DSCR on the combination of the City's remaining debt, ISRF Financing and WIFIA loan remains healthy at 1.68x in FY 2027.

However, the City wants to proceed with Phase 1 financing for critically needed upgrades to infrastructure. The best-case scenario is for the ISRF $21M loan to close first. When WIFIA is ready with its $20M approval, IBank can do a loan amendment and change our sources and uses to include total project costs of $41M, i.e., $21M first lien position IBank ISRF loan, and $20M WIFIA loan in subordinate position. Staff is working with the IBank legal team to review examples WIFIA financing agreements to iron out any potential issues or concerns. If the WIFIA loan does not pan out, the City will look at other options such as bonds or City reserves, or another ISRF loan. They may also choose to delay Phase 2 as those project components are not critical or time sensitive. If Phase 2 is delayed the projected DSCR in FY 2027 jumps from 1.68X to 2.22X.

As noted, the Fund has no additional borrowing plans beyond the Phase 1 and 2 projects. However, whether for the WIFIA loan or other future sources of financing, IBank's financing agreement will only allow parity debt the Fund's Net Revenues provide debt service coverage of at least 1.25 times the Maximum Annual Debt Service (MADS), taking into consideration the MADS payable in any Fiscal Year on all existing debt and the proposed parity debt. Additionally, Subordinate debt will only be allowed if Net Revenues provide debt service coverage of at least 1.00x MADS on all outstanding debt payable from the Fund. These covenants are standard and are included in the Staff Recommendation.

Staff Recommendation

Staff recommends approval of Resolution No. 23-02 authorizing ISRF Program financing to the City of Pacifica for the Lower Linda Mar Rehabilitation and Repair and UV Disinfection System Replacement Project:

1. **Applicant/Borrower:** City of Pacifica
2. **Project:** Lower Linda Mar Rehabilitation and Repair and UV Disinfection System Replacement Project
3. **Amount of ISRF Program Financing**: $21,000,000
4. **Maturity**: Thirty (30) years
5. **Repayment/Security:** The ISRF Program financing (Financing) would be secured by a senior lien on the City's Sewer Utility Enterprise revenues (Net Revenues) and all legally available amounts in the City's Sewer Utility Enterprise Fund (Fund).
6. **Interest Rate:** All-in 4.36% (including a 0.30% annual servicing fee)
7. **Fees:** The City of Pacifica to pay the origination fee of 1.00% ($210,000 included in the loan amount), and an annual servicing fee of 0.30% of the outstanding principal balance.
8. **Not an Unconditional Commitment:** IBank's resolution shall not be construed as unconditional commitment to finance the Project, but rather IBank's approval pursuant to the resolution is conditioned upon entry by IBank and the Borrower into an ISRF Program financing agreement (or agreements), in form and substance satisfactory to IBank.
9. **Limited Time:** If approved by the Board, the Board's approval expires 120 days from the date of its adoption. Thus, the Borrower and IBank must execute a financing agreement no later than 120 days from such date. Once the approval has expired, there can be no assurances that IBank will be able to grant the loan to the Borrower or consider extending the approval period.
10. **ISRF Program Financing Agreement Covenants and Conditions**: The Financing Agreement shall include, among other things, the following covenants:
    a. The Borrower will be required to maintain rates and charges in an amount sufficient to ensure that Net Revenues produce a minimum 1.25 times aggregate annual debt service ratio for obligations on parity with the Financing.
    b. The Borrower will be prohibited from issuing future debt senior to the Financing.
    c. Parity debt will be allowed if Net Revenues amount to at least 1.25 times the Maximum Annual Debt Service (MADS), taking into consideration the MADS payable in any Fiscal Year on all existing debt and the proposed parity debt.
    d. Subordinate debt will be allowed if Net Revenues are at least 1.00 times the sum of the MADS on all outstanding debt, payable from the Fund, including the proposed subordinate debt.
    e. The Borrower will covenant against reducing rates below levels used for all debt service payable from the Fund, and to take actions to increase rates or Fund a rate stabilization Fund if the debt service coverage ratios fall below required levels.
    f. Upon implementing rates and charges, the Borrower will covenant to ensure that its rate structure conforms to the requirements of Proposition 218 and those of the statutes implementing it and the cases interpreting it. Further, the City will covenant to notify IBank immediately upon the filing of any legal challenge to its rates or charges.
    g. The Borrower to comply with the requirements of the ISRF Criteria and all applicable laws, regulations, and permitting requirements associated with public works projects.
    h. The Borrower to provide to IBank annually, within 180 days of the end of each of the City's fiscal year, a copy of its audited financial statements together with an annual certificate

demonstrating compliance with the foregoing covenants, as well as any other information as IBank may request from time to time.

i. The Borrower to provide evidence reasonably satisfactory to IBank that all parity debt conditions precedent set forth in the financing agreements for existing bond issues have been satisfied.

Exhibits

Exhibit 1 – Statement of Net Position

CITY OF PACIFICA WASTEWATER (SEWER) ENTERPRISE FUND PROPRIETARY FUNDS STATEMENT OF NET POSITION										
For Fiscal Year Ending (FYE) June 30	**2017**		**2018**		**2019**		**2020**		**2021**	
Source:	ACFR	%	ACFR	%	ACFR	%	ACFR	%	ACFR	%
ASSETS AND DEFERRED OUTFLOW OF RESOURCES										
Current Assets										
Cash and Investments	$8,828,152	11.3%	$7,953,075	9.9%	$1,777,749	2.3%	$3,100,675	4.3%	$3,607,800	4.9%
Cash and Investments with fiscal agents	25,898,457	33.0%	14,193,533	17.6%	7,184,735	9.4%	5,916,196	8.3%	4,028,961	5.5%
Accounts Receivable	28,317	0.0%	9,507	0.0%	8,277	0.0%	407,337	0.6%	291,925	0.4%
Due from other funds			7,562	0.0%						
Prepaid Items	361,326	0.5%	359,054	0.4%	363,842	0.5%	368,802	0.5%		
Inventory	228,551	0.3%	143,675	0.2%	107,769	0.1%	17,388	0.0%	6,597	0.0%
Total Current Assets	**$35,344,803**	45.1%	**$22,666,406**	28.2%	**$9,442,372**	12.4%	**$9,810,398**	13.7%	**$7,935,283**	10.9%
Noncurrent Assets										
Advance to other funds	2,127,437	2.7%	1,956,755	2.4%	1,809,938	2.4%	1,449,938	2.0%	1,049,938	1.4%
Capital Assets, not being depreciated	5,333,317	6.8%	18,789,624	23.4%	26,677,523	34.9%	4,222,927	5.9%	7,544,407	10.3%
Capital Assets, being depreciated,net of accumulated depreciation	35,590,153	45.4%	37,018,459	46.0%	38,410,430	50.3%	55,992,215	78.3%	56,571,361	77.4%
Total Other Non Current Assets	**43,050,907**	54.9%	**57,764,838**	71.8%	**66,897,891**	87.6%	**61,665,080**	86.3%	**65,165,706**	89.1%
Total Assets	**78,395,710**	100.0%	**80,431,244**	100.0%	**76,340,263**	100.0%	**71,475,478**	100.0%	**73,100,989**	100.0%
DEFERRED OUTFLOWS OF RESOURCES										
Deferred Charge on refunding	317,209	0.4%	292,016	0.4%	270,980	0.4%	249,944	0.3%	228,908	0.3%
Related to OPEB			31,401	0.0%	31,401	0.0%	31,401	0.0%	31,401	0.0%
Related to pension	561,603	0.7%	400,352	0.5%	499,509	0.7%	512,928	0.7%	719,521	1.0%
Total Deferred Outflow of Resources	**$878,812**	1.1%	**$723,769**	0.9%	**$801,890**	1.1%	**$794,273**	1.1%	**$979,830**	1.3%
Liabilities										
Current Liablilities										
Accounts Payable	703,158	0.9%	4,108,265	5.1%	1,307,261	1.7%	503,688	0.7%	589,426	0.8%
Interest Payable	101,539	0.1%	97,318	0.1%	90,911	0.1%	86,319	0.1%	80,795	0.1%
Compensated absences										
Due within one year	185,999	0.2%	189,037	0.2%	159,075	0.2%	170,715	0.2%	156,844	0.2%
Due in more than one year	135,956	0.2%	131,364	0.2%	110,546	0.1%				
Long term debt										
Due within one year	2,432,461	3.1%	2,454,787	3.1%	2,389,269	3.1%	2,351,401	3.3%	2,361,678	3.2%
Due in more than one year	48,622,162	62.0%	45,865,807	57.0%	43,194,739	56.6%				
Net OPEB Liablilities due in more than one year			1,134,727	1.4%	1,047,591	1.4%				
Net pension liability										
Due in more than one year	1,082,543	1.4%	1,241,738		2,805,601					
Total Current Liabilities	**$53,263,818**	67.9%	**$55,223,043**	68.7%	**$51,104,993**	66.9%	**$3,112,123**	4.4%	**$3,188,743**	4.4%
Noncurrent Liabilities										
Compensated absences due in more than one year							118,633	0.2%	108,993	0.1%
Long term deb due in more than one year							40,692,392	56.9%	38,048,918	**52.0%**
Net OPEB Liablilities due in more than one year							1,047,591	1.5%	1,517,682	**2.1%**
Net pension Liablilities due in more than one year							3,188,285	4.5%	3,788,519	**5.2%**
Total Non-current Liabilities	**0**		**0**		**0**		**45,046,901**	63.0%	**43,464,112**	59.5%
Total Liabilities	**53,263,818**	67.9%	**55,223,043**	68.7%	**51,104,993**	66.9%	**48,159,024**	67.4%	**46,652,855**	63.8%
Deferred Inflows of Resources										
Related to OPEB			112,275	0.1%	112,275	0.1%	112,275	0.2%	112,275	0.2%
Related to pension	227,128	0.3%	51,856	0.1%	138,941	0.2%	183,082	0.3%	94,801	0.1%
Total Deferred Inflows of Resources	**$227,128**	0.3%	**$164,131**	0.2%	**$251,216**	0.3%	**$295,357**	0.4%	**$207,076**	0.3%
Net Position:										
Net investment in capital assets	15,985,969	20.4%	15,985,969	19.9%	15,985,969	20.9%	12,948,422	18.1%	25,029,762	34.2%
Unrestricted	9,797,607	12.5%	9,781,870	12.2%	9,799,975	12.8%	10,866,948	15.2%	2,191,126	3.0%
Net Position	**$25,783,576**	32.9%	**$25,767,839**	32.0%	**$25,785,944**	33.8%	**$23,815,370**	33.3%	**$27,220,888**	37.2%

Exhibit 2 – Statement of Revenues, Expenses and Changes

CITY OF PACIFICA WASTEWATER (SEWER) ENTERPRISE FUND STATEMENT OF REVENUES, EXPENSES AND CHANGES										
For Fiscal Year Ending (FYE) June 30	**2017**		**2018**		**2019**		**2020**		**2021**	
Source:	**ACFR**	**%**	**ACFR**	**%**	**ACFR**	**%**	**ACFR**	**%**	**ACFR**	**%**
% Change		**N/A**		**8%**		**7%**		**11%**		**-5%**
Operation Revenue										
Charges for services	$12,640,870	99.4%	$13,623,033	99.0%	$14,667,078	99.1%	$15,740,441	94.9%	$15,634,878	99.2%
Other operating income	74,154	0.6%	138,783	1.0%	135,627	0.9%	850,974	5.1%	125,647	0.8%
Total Operating Revenues	**$12,715,024**	100.0%	**$13,761,816**	100.0%	**$14,802,705**	100.0%	**$16,591,415**	100.0%	**$15,760,525**	100.0%
Operating Expenses										
Personnel Services	3,826,597	30.1%	4,005,488	29.1%	5,650,389	38.2%	4,626,852	27.9%	5,111,686	32.4%
Administration	1,002,928	7.9%	976,907	7.1%	1,046,523	7.1%	1,446,199	8.7%	1,044,006	6.6%
Supplies and materials	981,705	7.7%	1,080,978	7.9%	939,597	6.3%	1,044,348	6.3%	1,132,196	7.2%
Insurance	311,901	2.5%	365,252	2.7%	363,802	2.5%	653,617	3.9%	839,389	5.3%
Outside contractors	99,979	0.8%	81,542	0.6%	113,414	0.8%	114,644	0.7%	122,170	0.8%
Maintenance	565,098	4.4%	466,597	3.4%	372,740	2.5%	610,635	3.7%	345,474	2.2%
Utilities	1,655,703	13.0%	1,682,791	12.2%	1,746,781	11.8%	1,722,589	10.4%	1,781,973	11.3%
Depreciation	2,583,898	20.3%	2,775,873	20.2%	3,223,333	21.8%	6,899,389	41.6%	922,810	5.9%
Total Operating Expenses	**$11,027,809**	86.7%	**$11,435,428**	83.1%	**$13,456,579**	90.9%	**$17,118,273**	103.2%	**$11,299,704**	71.7%
Operating Income (Loss)	**$1,687,215**	13.3%	**$2,326,388**	16.9%	**$1,346,126**	9.1%	**($526,858)**	-3.2%	**$4,460,821**	28.3%
Nonoperating Revenues (Expenses)										
Investment earnings	$145,621	1.1%	$442,917	3.2%	$415,825	2.8%	$387,604	2.3%	$296,784	1.9%
Interest and fiscal charges	(847,936.00)	(0.07)	(1,469,113.00)	(0.11)	(1,653,428.00)	(0.11)	(1,658,535.00)	(0.10)	(1,567,346.00)	-9.9%
Amortization	(17,918.00)	(0.00)	(17,918.00)	(0.00)	(17,918.00)	(0.00)	(17,918.00)	(0.00)	(17,918.00)	-0.1%
Net Non-operating Revenues (Expenses)	**(720,233.00)**	(0.06)	**(1,044,114.00)**	(0.08)	**(1,255,521.00)**	(0.08)	**(1,288,849.00)**	(0.08)	**(1,288,480.00)**	-8.2%
Income (Loss) Before Operating Transfers	**966,982.00**	0.08	**1,282,274.00**	0.09	**90,605.00**	0.01	**(1,815,707.00)**	(0.11)	**3,172,341.00**	20.1%
Transfers										
Transfer In	$1,506,000		$26,272						$2,187,528	
Transfer Out	(2,324,500.00)		(124,615.00)		(272,500.00)		(154,867.00)		(1,937,528.00)	
Total Contributions and Transfers	**(818,500.00)**		**(98,343.00)**		**(272,500.00)**		**(154,867.00)**		**250,000.00**	
Changes in Net Position	**148,482.00**		**1,183,931.00**		**(181,895.00)**		**(1,970,574.00)**		**3,422,341.00**	
Net Position, Beginning of Year, as restated	25,635,094		24,583,908		25,767,839		25,585,944		23,798,547	
Net Position, Ending of Year	**$25,783,576**		**$25,767,839**		**$25,585,944**		**$23,615,370**		**$27,220,888**	

Exhibit 3 – Revenue Projections

CITY OF PACIFICA										
PROJECTIONS										
For Fiscal Year Ending (FYE) June 30	2023 Projected		2024 Projected		2025 Projected		2026 Projected		2027 Projected	
Source:	Projections	3.5%	Projections	3.5%	Projections	3.5%	Projections	3.5%	Projections	3.5%
% Change		N/A		3%		3%		3%		3%
Operation Revenues										
Charges for Services	$17,314,846	99.2%	$17,920,865	99.2%	$18,548,096	99.2%	$19,197,279	99.2%	**$19,869,184**	**99.2%**
Other operating Income	$139,148	0.8%	$144,018	0.8%	$149,059	0.8%	$154,276	0.8%	**$159,675**	**0.8%**
Total Operating Revenues	**$17,453,993**	100.0%	**$18,064,883**	100.0%	**$18,697,154**	100.0%	**$19,351,554**	100.0%	**$20,028,859**	100.0%
Expenses										
Personnel Services	$5,475,766	31.4%	$5,667,418	31.4%	$5,865,777	31.4%	$6,071,079	31.4%	$6,283,567	31.4%
Administration	$1,118,365	6.4%	$1,157,508	6.4%	$1,198,021	6.4%	$1,239,951	6.4%	$1,283,350	6.4%
Supplies and materials	$1,212,837	6.9%	$1,255,286	6.9%	$1,299,221	6.9%	$1,344,694	6.9%	$1,391,758	6.9%
Insurance	$899,175	5.2%	$930,646	5.2%	$963,219	5.2%	$996,931	5.2%	$1,031,824	5.2%
Outside Contractors	$130,872	0.7%	$135,452	0.7%	$140,193	0.7%	$145,100	0.7%	$150,178	0.7%
Maintenance	$370,081	2.1%	$383,034	2.1%	$396,440	2.1%	$410,315	2.1%	$424,676	2.1%
Utilities	$1,908,894	10.9%	$1,975,705	10.9%	$2,044,855	10.9%	$2,116,425	10.9%	$2,190,500	10.9%
Depreciation	$988,537	5.7%	$1,023,136	5.7%	$1,058,945	5.7%	$1,096,008	5.7%	$1,134,369	5.7%
Total Operating Expenses	**$12,104,526**	69.4%	**$12,528,184**	69.4%	**$12,966,671**	69.4%	**$13,420,504**	69.4%	**$13,890,222**	**69.4%**
Operating Income (Loss)	**$5,349,468**	30.6%	**$5,536,699**	30.6%	**$5,730,483**	30.6%	**$5,931,050**	30.6%	**$6,138,637**	30.6%
Non-operating Revenues (Expenses)										
Investment earnings	$328,673	1.9%	$340,177	1.9%	$352,083	1.9%	$364,406	**1.9%**	$377,160	1.9%
Interest and fiscal charges	($1,735,757)	-9.9%	($1,796,509)	-9.9%	($1,859,387)	-9.9%	($1,924,465)	-9.9%	($1,991,821)	-9.9%
Amortization	($19,843)	-0.1%	($20,538)	-0.1%	($21,257)	-0.1%	($22,001)	-0.1%	($22,771)	-0.1%
Net Non-operating Revenues (Expenses)	**($1,426,927)**	-8.2%	**($1,476,870)**	-8.2%	**($1,528,560)**	-8.2%	**($1,582,060)**	-8.2%	**($1,637,432)**	-8.2%
Income (Loss Before Operating Transfers)	**$3,922,540**	22.5%	**$4,059,829**	22.5%	**$4,201,923**	22.5%	**$4,348,991**	22.5%	**$4,501,205**	22.5%
Transfers										
Transfer In	$2,422,578		$2,507,368		$2,595,126		$2,685,955		$2,685,955	
Transfer Out	($2,145,715)		($2,220,815)		($2,298,544)		($2,378,993)		($2,378,993)	
Total Contributions and Transfers	$276,863		$286,553		$296,582		$306,962		$306,962	
Change in Net Position	**$4,199,403**		**$4,346,382**		**$4,498,505**		**$4,655,953**		**$4,808,168**	
Net Postion, Beginning of Year, as restated	**$30,882,793**		**$34,672,864**		**$38,595,588**		**$42,655,608**		**$42,655,608**	
Net Position, Ending of Year	**35,082,196**		**39,019,246**		**43,094,094**		**47,311,561**		**47,463,776**	
Total Operating Expenses/Total Operating Revenues	**69.4%**		**69.4%**		**69.4%**		**69.4%**		**69.4%**	

Assumptions:

Operation Revenues: Based on rate increases with 7% for 2022, and 3.5% rate increases through 2026.

Expenses: Similar staffing and expense levels over five year rate period.

Non-operating Revenues: Similar levels over five year period.

Net positive transfers into the fund over five year period.

Initial Net Position based on 2021 CAFR.

Exhibit 4 – Key Indicators Table

City of Pacifica					
Key Indicators ($000)	**2017**	**2018**	**2019**	**2020**	**2021**
Economy					
Median Family Income (as % of US Median)[1]	166%	178%	180%	193%	ND
Unemployment rate (%) [2]	2.9%	2.4%	2.1%	7.4%	5.1%
Full value per capita ($)	$ 144,657	$ 152,753	$ 160,407	$ 171,705	$ 182,700
Enterprise Fund					
Liquidity					
Cash Balances	$ 8,828	$ 7,953	$ 1,778	$ 3,101	$ 3,608
Current Ratio [3]	2.76	1.24	0.57	1.25	1.23
Days Cash on Hand [4]	292	254	48	66	117
Performance					
Operating Revenue	$ 12,715	$ 13,762	$ 14,803	$ 16,591	$ 15,761
Operating Margin [5]	13.3%	16.9%	9.1%	-3.2%	28.3%
Fund Balances as % of Operating Revenue	202.8%	187.2%	172.8%	142.3%	172.7%
Leverage					
Fund balances	$ 25,784	$ 25,768	$ 25,586	$ 23,615	$ 27,221
Leverage Ratio [6]	2.1	2.1	2.0	2.0	1.7

[1] https://www.census.gov/library/publications/2022/demo/p60-276.html Table A-2 Nov 4,2022

[2] https://www.labormarketinfo.edd.ca.gov/cgi/dataanalysis/areaselection.asp?tablename=labforce Nov 4,2022

[3] Current Assets ÷ Current Liabilities

*[4] (Cash and Investments * 365) ÷ Operating Expenses*

[5] Operating Income as % of Operating Revenues

[6] Total Liabilities ÷ Fund Balances

Note: In FY 2020 and 2021, accounting staff at the city corrected an error and moved liabilities that were due in more than one year from current liabilities to noncurrent liabilities. (See Exhibit 1). Liability line items such as liabilities and OPEB liabilities due in more than one year were treated as non-current liabilities for the calculation of the current ratio and leverage formulae in the chart above.

Exhibit 5 – Service Area Map